Housing Interim Committee

November 10, 2021

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Governor Jared Polis

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Overview

Our state faces significant challenges with providing affordable housing. We continue to attract new residents and jobs, but with this growth has come ever-increasing housing prices and growth, placing unsustainable demands on our limited housing stock. The increase in housing prices has created a challenge for many low, middle, and working class families who are trying to enter the housing market or simply live near their work.

Due to our high quality of life and thriving economy, we will continue to grow and our housing policies and investments must recognize that reality. It is clear that Colorado must plan for the dramatic growth projected in the years ahead and must make sustainable housing investments needed to accommodate that growth and ensure safe, equitable affordable housing is available to all Coloradans.

Overview of Priorities

Our priority is to encourage **<u>more supply of housing on the entire continuum of housing development</u>**, while ensuring the investment of these new resources are done in a manner that supports environmentally forward solutions and well-planned growth in alignment with our GHG goals.

1. Strong Communities (Sustainable Infrastructure)
2. Financing Green Energy Improvements for Affordable Housing
3. Housing Innovation Incentive
4. Colorado Housing and Finance Authority's Missing Middle Income Program

Priority #1: Strong Communities (Sustainable Infrastructure)

Developing Differently: A Path to a More Resilient Recovery

- Compact, walkable infill redevelopment supports lower development costs, reduced GHG emissions, improved local government fiscal health
- Barriers to affordable housing include difficulty in getting units built and the expense of adding, expanding, or upsizing infrastructure

Redevelopment plan for city-owned site in Grand Junction

DOLA, CEO, & CDOT partnership

Strong Communities - Setting the Stage for Affordability

HB21-1271: Supports communities incentivizing affordable housing development through local land use

Strong Communities ($100M*): Expands assistance to communities to analyze and implement infrastructure investment options that will provide the biggest impact on infill affordable housing. Includes 1271 strategies and expands their view of the local government role.

Case Study: Rifle found that locating future growth in infill areas and increasing density from 1.4 units/acre to 2.6 units/acre would save 31% in infrastructure costs (capital and maintenance)

*Amount is subject to change, is scalable, and would leverage additional funds.

Strong Communities - *Developing Differently*

This program stacks:

- Assistance on communicating controversial issues
- Engineering analysis and policy/code audits
- Infrastructure funding to realize local vision for redevelopment and infill housing
- Partnership on affordable housing development on state land

Outcomes:

- More housing!
- Affordable housing near jobs/transit
- Reduced GHG, VMT
- Lower transportation costs for residents
- Improved fiscal health
- Increased investment
- Reduced maintenance costs
- Reduced energy and water consumption

Strong Communities - Funding Examples

#1 A mountain resort region identifies it has worsening commutes due to housing shortages and is interested in creating a Regional Transit Authority over two counties and multiple cities, one of which is the resort center and the others are economically struggling bedroom communities. An $8M grant is awarded on the condition that a ballot measure passes. The jurisdictions adopt zoning changes and growth IGAs to focus development along the transit lines.

#2 A smaller suburban community is awarded $5M to resize and upgrade water, sewer, and stormwater (including green infrastructure) in the downtown/main street. The city rezones much of the downtown for mixed use, provides a density bonus and use-by-right for certain community benefit uses (e.g., child care and affordable housing). Partners on affordable housing project on state owned land. Specifies priorities in capital improvement plan. City partners with the county to manage growth and development. $5M to county infrastructure and/or conservation easements to protect prime agricultural land.

Priority #2: Financing Green Energy Improvements for Affordable Housing

Colorado Energy Office - Will Toor, Executive Director
October 21, 2021

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Why is building energy relevant to affordable housing?

From a climate perspective:

➔ Buildings are one of Colorado's top 5 largest GHG emitting sectors

From a cost and equity perspective:

➔ 20% of Colorado households spend at least 5% of their income on energy

➔ Many low-income households have energy expenditures that can exceed 10%

What do we mean by low energy cost, low-emissions housing?

- ➔ **Energy efficiency**: insulation, air sealing, passive solar, high-performance windows, ENERGY STAR appliances, etc.
- ➔ **Clean, electric heating and appliances**: efficient air source or ground source heat pumps, heat pump water heaters, induction stoves
- ➔ **Renewables**: rooftop or community solar

Benefits include energy savings, health and safety, comfort and resiliency

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Proposed Funding

$25 million* to fund incremental upfront costs for efficient, electric measures and renewable energy systems for both existing buildings and new construction, with goal of near zero energy buildings

➔ **Efficient, electric-ready measures:** improvements that reduce heating/cooling load such as building envelope and ventilation measures and electric panel upgrades that support future electrification

➔ **Efficient, all-electric equipment:** air source heat pumps, heat pump water heaters, induction cooktops

➔ **Renewable energy systems:** rooftop and community solar

*Amount is subject to change and is scalable.

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Proposed Approach

- ➔ Colorado Clean Energy Fund (CCEF) and Colorado Energy Office (CEO) will coordinate with CHFA (Colorado Housing and Finance Authority) and other affordable housing lenders to offer access to grants and financing to assist affordable housing providers and housing tax credit (LIHTC) developers with the incremental upfront costs of constructing efficient, all-electric affordable housing and improving existing units
- ➔ CCEF manages loan portfolio
- ➔ CEO manages grant fund

Projected Outcome

This funding will support higher efficiency and electrification of **3,000-4,000 affordable housing units**

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Appendix

Proposed Financing Approach

CCEF will partner with affordable housing lenders to offer a suite of finance products to support each stage of development

- ➔ **Electrification/Energy Efficiency Improvement Loan**: support the purchase/lease and installation of electrification, clean energy, and energy efficient equipment
- ➔ **Predevelopment Loans**: support the cost-intensive repair, including health and safety, design, planning, and analysis stage required prior to construction
- ➔ **Construction/Construction-to-Perm Loans**: support a project's construction or retrofit/installation phase
- ➔ **Permanent Debt**: Gap financing/mortgage participation, including at refinancing, underwritten to greater projected energy savings than is typical of other permanent debt lenders

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Priority #3: Housing Innovation Incentive Program

Innovative Housing Incentive Program (IHIP)

Jeff Kraft

Deputy Director, OEDIT & Director, Business Funding & Incentives

OEDIT's Role in Housing

- OEDIT creates a positive business climate that encourages dynamic economic development, sustainable job growth, and access to capital for small businesses. We advance the state's economy through financial and technical programs but we are not a housing agency.

- **Existing Programs Supporting Housing:**
    - Enterprise Zone and Opportunity Zone Tax Benefits
    - Rural Jump Start
    - Access to Capital Programs
    - Space to Create
    - Community Revitalization Grants
    - Incentives for Innovative Housing Technologies & Businesses

IHIP Objectives

- **Grow Small Businesses with Innovative and Sustainable Business Models**: Grow capacity of new and existing Colorado small businesses that manufacture environmentally efficient, attainable and affordable housing units; grow long-term viability of innovative housing sectors

- **Create Jobs**: Create well-paying, year-round new jobs with benefits in both rural and urban areas of the State

- **Increase Housing Inventory**: Increase affordable, attainable, and energy-efficient housing supply across the State

IHIP Overview

- **Who**: Innovative housing manufacturing businesses

- **What**: 1) working capital and operations with incentives for per unit development, & 2) subsidized capital for developing innovative, cost-effective housing manufacturing facilities.

- **How**: Pilot program administered by OEDIT, with funding provided directly to businesses

- **Budget**: $25M*

*Note: Draft amount is subject to change.

Eligibility

- **Type of Business**: Must be a new or existing innovative housing manufacturing business in Colorado, which includes (but is not limited to):
    - Modular Housing Manufacturers
    - Prefabricated Panelized Construction Manufacturers
    - 3D Printed Housing Manufacturers
    - Kit Home (installed on foundations) Manufacturers
    - HUD Housing (installed on foundations) Manufacturers

- **Size of Business**: Must meet small business definition from the American Rescue Plan Act (fewer than 500 employees)

Program Components

- Working Capital
  - Operations Grant
  - Per Unit Installation Incentive

- Forgivable Loan and/or Revolving Loan Structure for Affordable and Sustainable Housing (FLASH) Factory Development

Complementary workforce training opportunities.

Working Capital & Operations Acceleration Grant

- **<u>Benefit</u>:** Participating businesses receive up to an initial **$50,000** Working Capital & Operations Grant
  - 5:1 reimbursement (e.g., $250,000 in operating expenses = $50,000 grant)
  - Operating expenses include but are not limited to: Payroll, inventory, materials, etc.

- **<u>Plus-up</u>:** Participating businesses located in Just Transition areas or other designated areas receive an additional **$25,000** in funding

Note: Businesses may also be eligible for other OEDIT incentives, including Job Growth Incentive Tax Credits and Enterprise Zone incentives

Per Unit Installation Incentive

Base Benefits: Participating businesses receive an additional grant per unit built and installed in Colorado:

- **$500** per unit that meets the 2018 IECC standard (Base 1)

  OR

- **$1,000** per unit that meets the 2021 IECC standard (Base 2)

All Per Unit incentives must be reinvested in the business and used as working capital

Per Unit Installation Incentive (Plus-ups)

Affordability Plus-ups **(stackable):**

- **$500** per unit that is 120% AMI or lower (moderate income)
- **$500** per unit that is 80% AMI or lower (low income)

Innovative/Efficiency Plus-ups **(stackable):**

- **$500** per unit shipped out the factory that costs the end user <$125 per square foot.

Energy Efficiency Plus-ups **(stackable):**

- **$500** per unit that meets one or more additional energy-efficiency criteria (e.g., pre-wiring for solar, HERS score of 50 or lower, etc.)
- **$500** per unit that meets the above standard and achieves near net-zero energy efficiency

Geographic Area Plus-ups**:**

- **$500** per unit installed in a rural area or other designated areas.

***Total possible incentive per unit - $4,000

Forgivable Loan and/or Revolving Loan for Affordable & Sustainable Housing (FLASH) to Factory Development

- **Benefit**:
  - A competitive process for companies to apply for a forgivable loan from the state that would fund a privately-owned affordable housing factory
  - Loan forgiven once a certain # of affordable housing units are produced.
  - Loans would be substantial (e.g. ~$5million) and would require private capital investments.

Note: OEDIT developed this idea from a proposal by representatives from Colorado Modular Homes (Nate Peterson at Rocky Mountain Home Builders) and County Commissioners Acting Together (Thomas Davidson).

Requirements

- **Job Creation**: Within the first year of receiving the Working Capital & Operations Acceleration Grant, participating businesses must create at least one net new job in Colorado, the wage for which must meet or exceed the average annual wage of the county in which the job is located

- **Unit Sales**: Within two years of receiving the Working Capital & Operations Grant, participating businesses must have at least one confirmed sale of a unit to be installed in CO

- **Performance Metrics**: Participating Businesses must provide an annual report indicating 1) the type and number of units built in CO, 2) the type and number of units installed in CO, and 3) the number of net new jobs created in CO

- **Restrictions**: Participating businesses are only eligible for either the 1) Working Capital & Operations Accelerations **OR** 2) the Loan for Affordable & Sustainable Housing

indieDwell
Pueblo, Colorado

- Modular housing manufacturer providing multifamily solutions for affordable housing

- Initial production is shipping units to CA

Fading West
Buena Vista, Colorado

- Current property developer and soon-to-be manufacturer of modular homes, with a new factory underway in Buena Vista

- Primed to provide property developers across the State with affordable housing solutions

Additional Innovative Housing Manufacturers in Colorado

- Industrial Hotel (Florence)
- SmartPads (Steamboat)
- Simple Homes (Denver)
- Mosaic formerly known as Foothills (Grand Junction)

Workforce Training

- Support for on-the-job trainings and career pathways specific to construction trades and inspectors for modular housing installations
- Coordinated between business and education
- Potential coordination with Workforce Interim Committee
- Existing OEDIT program Skill Advance Colorado can also support efforts to train construction workforce

Priority #4: CHFA Missing Middle / Workforce Housing

- A convergence of factors have come together to create affordability challenges for those that fall in the 60-120% of area median income – also called the "Missing Middle."
  - **Example:** Without affordable housing, teachers and school employees are unable to live in the communities where they work. Not only does this create more traffic congestion and longer commutes, but it also reduces community stability and inclusion.
- Colorado Housing and Finance Authority's Middle Income Access program (MIAP) addresses the middle income workforce, sometimes referred to as the "missing middle," with incomes too high for Housing Credit units but often overburdened by market rents.
  - <u>Total Investment: $25M*</u>
- We can collaborate with CHFA on program modifications that fit our objectives (e.g. specific use covenants, density, climate goals, and AMI levels).
- The loans are currently funded by their Housing Opportunity Fund (HOF) which is a limited source. Use of this fund has been limited by the available capital in the HOF so they have not really marketed the program widely, although there is high interest in this program in Colorado's high needs areas due to its success.

*Amount is subject to change, is scalable, and would leverage significant funding.

Benefits

- Serves housing needs in the middle income “missing middle” AMI range (60% up to 120% ami)
- Leverages private sector capital and does not use state or federal housing funds that are typically targeted to serving lower income households (below 60% ami)
- Provides a mechanism for developers to buy down rents and build units in the middle-income space versus solely building market rate units

Features

- Low-cost mezzanine-like debt
- CHFA originates the loan and services the 2nd mortgage loans
- Flexible terms

Basic Terms of the MIAP:

- Loan Size: $2M-$6M
- Security: Subordinate 2nd DOT
- Term: 10-15 years
- Amortization: 30 years
- Expected Interest Rate: 5%-6%
  - Interest only features in some cases
  - Step up rate for later years
- Equity Sharing (in some cases): 6-10% of net sale or refinance
- Affordability: at least 20% of renters at middle income

Projects Funded:

- Five (5) multifamily developments, using $13.9M in CHFA funding
- Leveraged $152M in public and private sector financing
  - $114M senior debt
  - $38M in equity/other soft debt
- 622 units of rental housing, with 600 restricted between 80%-120% ami
- Developments in Keystone, Steamboat, Gypsum, Estes Park and Denver

Other Ideas

The previous list is of our highest priorities but **is not exhaustive.** Other strategies for increasing the supply of housing on the entire continuum include:

- Increasing homeownership opportunities and creating intergenerational wealth through expanded down payment assistance.
- New financing tools such as:
  - Acquisition loan pool
  - Mixed use loan pool
- Increasing access to viable land, underutilized property for development

HB21-1271 Innovative Affordable Housing Update

- **Planning Grants**
  - Awarded over $1M to 14 municipalities and counties
  - Reviewing 2nd round; 3rd round due 12/6/21
  - Developing option for pre-development / site planning funding
  - Popular strategies: streamlining, fee reduction, ADUs, density bonus, parking reduction, land trust or land banking
- **Incentive Grants**
  - 1st LOIs accepted over $40M in projects among 26 municipalities and counties
  - Strike team will meet with each of the 26 communities
  - Will award small number of highly competitive, shovel-ready projects
  - Focus on shovel ready, land acquisition, preservation of expiring units, and state/publicly owned sites